

Probe Exploration Inc.

An emerging energy
company building a
strong foundation for
growth and increased
shareholder value.

1994 Annual Report

and 1st Quarter Report

CORPORATE PROFILE

Probe Exploration Inc. is a public exploration and production company based in Calgary, Alberta. Activities are focused on oil and gas prone areas in southern Alberta and Saskatchewan. During the past year, the Company shifted its focus from high risk exploration to development and operations. Probe will develop projects that have a risk/reward ratio appropriate for the Company's financial position at any one time. This change in direction will provide stability in order to maximize future cash flow and ultimately increase shareholder value.

The common shares of Probe Exploration Inc. are listed on the Alberta Stock Exchange under the trading symbol "PRX". At the date of writing, the Company had 21 million common shares issued and outstanding, of which management, staff and directors owned or controlled 45%.

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders will be held on December 6, 1994 at 3:00 p.m. at the Calgary Petroleum Club in the Trophy Room, 319 - 5th Avenue S.W., Calgary, Alberta.

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CORPORATE HIGHLIGHTS

	Year ended June 30		Three months ended Sept. 30 (unaudited)	
	1994	1993	1994	1993
FINANCIAL				
(\$ except share amounts)				
Gross revenue	\$ 1,153,108	\$ 1,384,733	254,179	126,241
Earnings before depreciation and interest	562,621	600,882	41,699	15,427
Net income (loss)	428,494	301,029	(5,278)	(14,795)
Cash flow from operating activities	152,010	520,533	112,362	27,346
Oil and gas properties (net of depletion and depreciation)	3,544,932	1,438,722	3,990,047	2,113,237
Common shares outstanding, at end of period	19,896,402	16,129,959	21,521,277	17,112,116
OPERATING				
<i>Production – BOEPD</i>	93	183	200	98
<i>Land Holdings (Acres)</i>				
Gross	107,067	87,750		
Net	35,933	29,000		
<i>Drilling Activity</i>				
Total Wells	17	2		
Exploratory Wells	13	2		
Development Wells	4	—		
Probe Operated	11	—		
<i>Reserves – MBOE</i>	2,389	568		
Proven	1,671	449		
Probable (risked)	718	119		
NPV at 15%	\$ 15,764,000	\$ 2,884,000		

LETTER TO THE SHAREHOLDERS



For Probe Exploration, 1994 was a year of focused growth

An aggressive exploration and development program and many unique financial initiatives were undertaken in the past year. We shifted our focus from high risk exploration to development and operations to provide the stability and foundation necessary to maximize future cash flow and ultimately increase shareholder value. Management's decisive action to redirect the Company's strategy will position Probe to meet this year's objectives and will result in tremendous growth.

During 1994, Probe accelerated the Company's growth by raising new capital to fund an active drilling and acquisition program and gain quality reserves. Not wanting to issue additional shares or incur more debt, Probe employed a number of alternative means of financing and was prudent in the sale of certain minority working interests. Without jeopardizing the Company's financial health, we have significantly increased our reserve base.

Developing reserves is key to Probe's future

Stable reserves and solid cash flow are necessary to sustain an exploration program. Until we are confident that we have fully achieved both, we will concentrate on development projects. Developing existing reserves is the best way for Probe to achieve stable, positive cash flow in amounts sufficient to internally fund future exploration programs.

As a result of last year's program we added significant oil and gas reserves. Additions totalled 1.8 MMBOE at a net cost of \$2.40 per BOE. Probe's total reserve base is now estimated at 2.4 MMBOE with a net present value of \$15.8 million discounted at 15%. Developing these reserves has the potential to provide daily production of roughly 750 BOEPD by year end 1995. This production milestone should result in sufficient cash flow to internally fund future high reward exploration prospects.

We believe that exploration is essential to the long-term success of the Company. Continuing our exploratory initiatives on recently purchased acreage still remains a

priority but in the near-term, Probe will concentrate on development projects in order to maximize future cash flow.

Capitalizing on future opportunities

Probe is excited and optimistic about the coming year. We are confident that our strong financial backing, development strategy and solid reserve base will yield positive results and create opportunities for a stronger financial future.

Stable Financial Position

Our strong relationships with major investors including the Petrovest Group, the Enerplus Group and certain brokerage houses has allowed us to raise the necessary capital to pursue exploration and development opportunities. In addition, the Enerplus Group provides a potential source for participation in acquisition and development prospects. The Company's essentially debt-free position gives us financial flexibility to pursue opportunities as they arise.

Significant Asset Base

Probe has assembled high quality development projects in the Kitscoty, Leduc, Little Pine and Veteran areas. The Company has a significant land base of approximately 107,000 gross acres located in high potential areas which is drawing the interest of other industry partners. This solid exploration and development base will provide a strong foundation for future cash flow.

Solid Expertise

During the year, we found a need to acquire additional staff to accommodate our new focus on operations. With this high level of expertise, our skill set now matches our new direction. The contribution and dedication of our staff has allowed us to successfully achieve a major shift in direction toward stable reserves and solid cash flow.

Also, during 1994, we welcomed Mr. Marcel Tremblay and Mr. Dennis Gieck to our Board of Directors. Mr. Tremblay, the founder, President, Chairman of the Board and Chief Executive Officer of the Enerplus Group has over 34 years of experience in the investment and oil and gas industries. His financial expertise and tremendous imagination provide a solid link for opportunity in the financial and petroleum sectors. His strong sense of vision and vast experience will be a major advantage in achieving our future growth.



Mr. Gieck is a professional engineer with over 20 years of oil and natural gas experience. He is presently Vice President, Operations for the Enerplus Group, President and Chief Executive Officer for both a private oil and gas producer and private operations services company in Alberta. Probe is already seeing results from his contribution and extensive operations knowledge. We look forward to his hands-on approach and detailed follow-up to operational issues.

Our Board of Directors now has excellent representation from every facet of the energy business. Their experience and insight will continue to provide us with ongoing advice and counsel.

Monitoring progress will be a priority

Management is firmly committed to maximize Probe's operating and financial results. This determination is shared by the Company's major investors who continue to provide Probe with the capital necessary to develop the Company's reserve base. We have established an aggressive yet achievable set of objectives for fiscal 1995 which we will continue to monitor and adjust if necessary throughout the coming year.

1995 Objectives

- Reach a daily production rate of 750 BOEPD by year end
- Achieve sufficient levels of cash flow to internally fund exploration and development
- Maintain average working interests of 40%
- Secure operatorship on majority of projects
- Continue to add selective acreage to exploratory land base
- Achieve a more balanced product mix
- Monitor and control operating costs in a competitive manner
- Maintain corporate debt at less than 2 times annualized cash flow
- Increase share price and liquidity

Moving forward with determination

Despite unstable commodity prices and marginal year end cash flow results, management remains confident in Probe's future. We believe that the Company's stable and long-life reserve base and attainable corporate objectives will allow the Company to achieve long-term sustainable growth. As well, with our continued access to capital, we are well positioned to gain momentum throughout the next year.

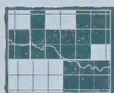
The strong management team at Probe have shown a tremendous ability to generate opportunities and we look forward to a revitalized year of new growth and enhanced shareholder value.

On behalf of the Board of Directors,

Stephen P. Gibson
President

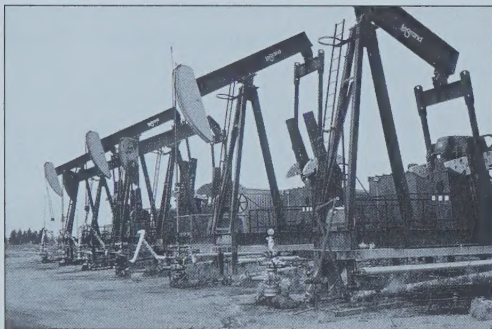
October 7, 1994

OPERATIONS REVIEW



In order to meet Probe's major corporate objective of securing near-term cash flow, management felt it prudent to concentrate on development projects. While some promising leads were identified on exploratory projects undertaken in the Jenner and Princess areas of Alberta last year, the Company will pursue them further when Probe's daily production target of 750 BOEPD has been achieved and annual cash flow reaches levels sufficient to internally fund drilling projects.

The Company's solid foundation of reserves is an important cornerstone in management's operating strategy for 1995. Probe's technical staff will concentrate



on successfully exploiting this asset base into stable, reliable cash flow. The majority of the Company's budget will be expended on developing projects where production,

processing and transportation facilities are already in place. To minimize capital requirements, Probe will utilize existing infrastructure whenever possible.

More specifically, Probe is planning on drilling eight wells during fiscal 1995 with an average working interest of 40%. Depending on capital availability, the Company has identified a further seven wells for drilling. The base program calls for a net expenditure of \$1.0 million, while the expanded program would require an additional \$750,000. These figures include geophysical requirements but do not include land costs since Probe already holds the acreage for these projects. Tie-in and equipping costs are also not included and will be funded as required through the Company's operating line.

LAND AND DRILLING

During fiscal 1994, Probe drilled a total of 17 wells, of which 13 were classified as exploratory. The program resulted in five oil wells, five shut-in gas wells and seven dry holes. In keeping with the Company's stated objective of becoming an operating company with larger working interests, 11 of the 17 wells drilled were Probe-operated and the average working interest was 40%. As a result of the dedicated efforts of Probe's technical staff and key consultants, the large majority of these projects were well managed without significant cost overruns or technical problems.

Land Holdings
(net acres)



Drilling Activity (Gross wells)

	1994			1993		
	Exploratory	Development	Total	Exploratory	Development	Total
Oil wells	3	2	5	1	—	1
Gas wells	3	2	5	—	—	—
Dry	7	—	7	1	—	1
Total wells	13	4	17	2	—	2

Approximately \$365,000 was spent to acquire two- and three-dimensional seismic data. Analysis and follow-up of this data will continue throughout this year. Management believes that the investment in last year's program along with a land base of over 100,000 gross acres represents an important building block for Probe's future growth.

AREA HIGHLIGHTS



Kitscoty

Following an aggressive timetable and optimistic projections for the development of the Kitscoty project, production forecasts became prey to a number of problems, both within and outside of Probe's control. After resolving some partner problems, eliminating operational bottlenecks and regulatory hurdles, we are finally progressing with our modified Steam-Assisted Gravity Drainage (SAGD) program.

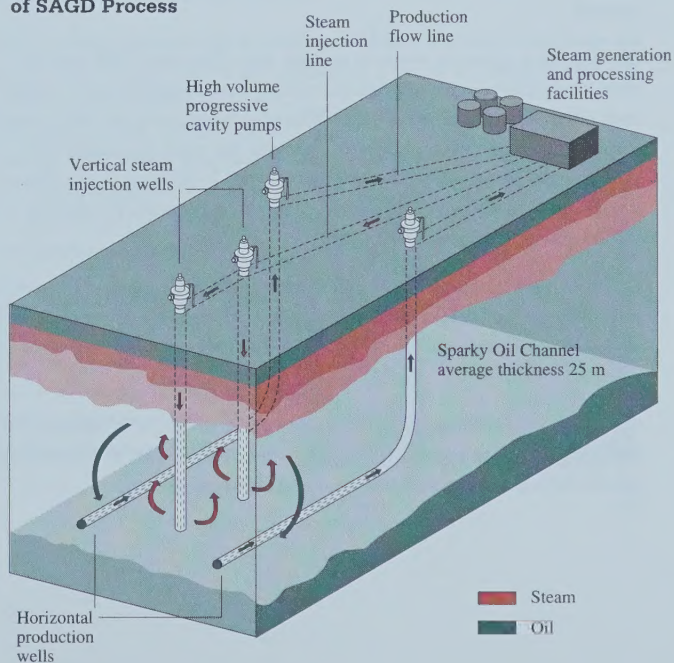
A key component of the Company's exploitation plan is the utilization of existing infrastructure to minimize capital requirements. The SAGD program involves injecting steam into a number of existing vertical wells which, through heat and pressure, facilitates the movement of oil into new horizontal wellbores, the first two of which were drilled in February 1994.

The Sparky channel, from which the oil is extracted, has an average pay thickness of 25 metres resulting in oil reserves of 12.0 MMBBLS. Daily production rates on

primary drive have stabilized between 100 to 150 BOPD. Following the establishment of a "steam chamber" in the reservoir, production rates of up to 600 BOPD per horizontal well are projected.

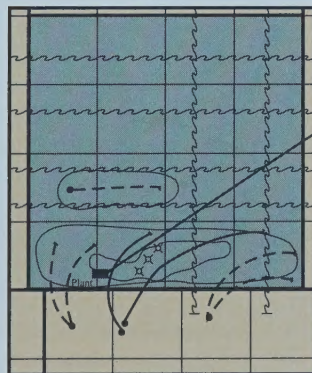
For 1995, Probe is planning an extensive geophysical program to help optimize trajectories for four additional horizontal wells. Initial two-dimensional seismic work suggests a second untapped channel directly north of the existing project. The Company is planning on drilling a vertical well to assist in the evaluation of this prospect.

3D Representation of SAGD Process



Kitscoty

R2W4



New disposal well
1.5 miles from plant

TWP 51

- ✕ Vertical steam injection wells
- Existing horizontal wells
- - - Horizontal locations
- ~ 1995 seismic program

Leduc

As stated at last year's Annual General Meeting, the Leduc prospect continues to be the Company's most frustrating and yet promising development prospect. The loss of \$250,000 of oil and gas revenues per year due to the abandonment of a nearby gas plant has forced management to examine every alternative to reinstate this cash flow.

Probe's intention to participate in the construction of a new processing facility has been delayed due to the unsuccessful efforts in securing additional reserves by other area operators. In addition, Probe has been anxious to horizontally develop the oil reserves contained on Company lands, however, the drilling of this potentially high reward development project has been postponed until partner differences are resolved.

Management is pleased to report on progress made since fiscal 1994 year end. A three-dimensional seismic program has recently been completed over Company lands and drilling locations have been confirmed including some previously unseen structural anomalies. We are cautiously optimistic that recent discussions with our partners will finally allow new drilling activity. In addition to our planned horizontal well, two vertical tests based on three-dimensional locations are projected for the 1995 program.

Probe has been contacted by an area operator who has expressed interest in processing 2.5 to 3.0 MMCF per day of gas from Probe's existing well. This production alone would add approximately \$500,000 per year to the Company's net operating revenue.

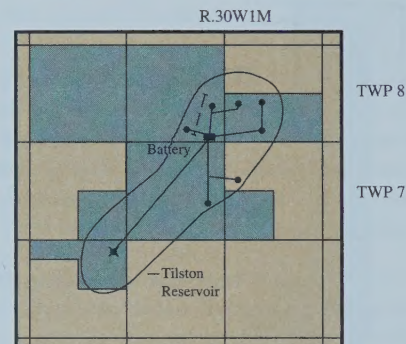
While Probe is still firmly committed to the Leduc project, it is management's intent to continue to expand the Company's horizons in order to minimize the potential damage of being so financially dependent on one property.

Antler

Probe was appointed operator of the 2800-acre Antler field in southeast Saskatchewan in mid-1994. This field is comprised of six Tilston oil wells that produce into an under-utilized battery and treating facility. Probe and its partners believe that solid potential exists to drain significant quantities of oil by horizontal drilling and a location has been identified for drilling in late

1994. Preliminary reservoir evaluation indicates that less than 5% of the estimated oil in place has been vertically produced and that significant volumes of light sour crude oil could be recovered. A proposed 400 metre lateral is projected to initially produce up to 400 BOPD. A buyout of partners is being negotiated and we expect that our working interest will average 38%.

Antler



• Oil well — — — Proposed horizontal well

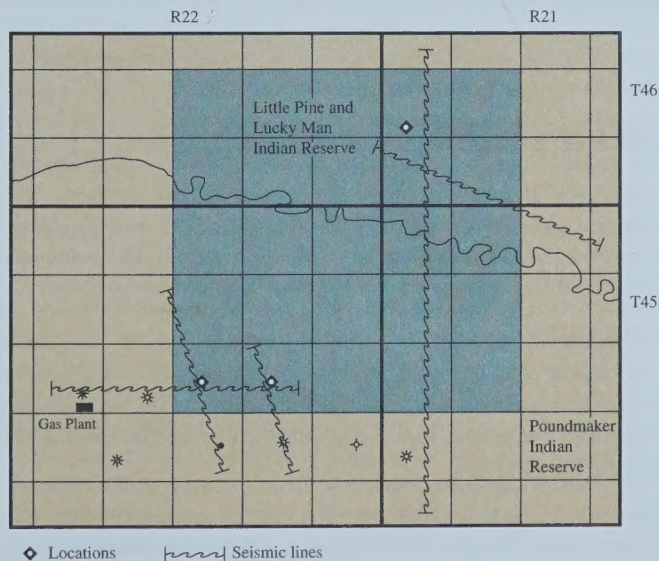
Veteran

This extension of the Provost area continues to draw Probe's attention. A gas discovery from last year's program has led to additional acreage acquisitions, in which Probe holds a 33% working interest. Area processing bottlenecks and resulting tie-in problems will require Probe and its partners to secure additional reserves to enhance project economics. Two development wells are planned for early 1995 with estimated tie-in following spring break-up. Other plays are being developed through specific geophysical programs which augment Probe's access to a 600 kilometre regional survey. While these plays are generally high risk exploration, we still intend to maintain a presence in this area but at a reduced working interest compared to 1994.

Little Pine / Poundmaker

Probe has recently acquired a 50% working interest along with operatorship in 25 sections of land located on the Little Pine Indian Reserve approximately 45 minutes southeast of Kitscoty. This contiguous block situated in northwest Saskatchewan is in close proximity to a number of high-quality plays and contains a number of prospective oil and gas formations. Probe's immediate attention is focused on a Colony gas play with offset wells having produced as much as 4.0 BCF at rates of 1.0 to 2.5 MMCF per day. Processing capacity at reasonable cost has been confirmed less than two miles away, thus meeting our corporate objective of utilizing existing infrastructure to minimize capital requirements and obtain near-term cash flow. Negotiations to acquire additional interests have been initiated with the intention of Little Pine becoming a major operating area for Probe.

Little Pine



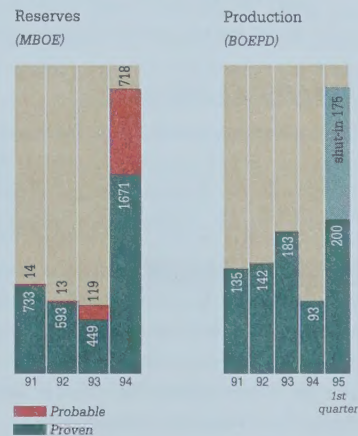
PRODUCTION AND RESERVES

Management is encouraged by a strong recovery in fourth quarter production volumes which has continued into the first quarter of fiscal 1995. Average production rates for fiscal 1994, however, dropped 50% to just under 100 BOEPD from one year ago.

Probe's current net production is approximately 200 BOEPD with additional shut-in capacity of 175 BOEPD. Putting this extra capacity on stream is a major operational goal for Probe. When combined with conservative estimates of the gains expected from this year's development program, our corporate objective of reaching 750 BOEPD in 1995 is realistically attainable.

Probe achieved significant reserve growth in 1994 both in terms of dollar value and quality. Probe's reserve base is now estimated at a total of 2.4 MBOE with a net present value of \$15.7 million discounted at 15%. Of this total volume, 1,671 MBOE have been classified by independent evaluators as proven and 718 MBOE as probable (risked at 50%).

The improvement in reserve quality is verified by the 13-year economic life of Probe's petroleum assets. This provides another important element in the foundation for future cash flow.



MANAGEMENT'S DISCUSSION AND ANALYSIS



Highlights

- Asset value per share (NPV at 15%) increased 494% to \$0.79 per share from \$0.16 per share
- Probe's balance sheet has continued to strengthen with the elimination of long-term shareholder notes payable
- \$4.7 million raised through a combination of common equity issues, sale of convertible preferred shares and property dispositions
- \$4.7 million invested in oil and gas assets
- Oil and gas revenues declined by one-third for the year with marked improvement in fourth quarter of 1994 and first quarter of fiscal 1995
- Cash flow decreased from \$520,533 to \$152,010
- Net income was up 42% to \$428,494 from \$301,029

Value of Oil
and Gas Assets
(NPV at 15%)
(\$ millions)



FINANCIAL RESULTS

The continued improvement in the Company's balance sheet reflects management's ability to set and successfully achieve financial and corporate objectives. Determination to establish a substantial reserve base has resulted in a five-fold increase in the value of Probe's crude oil and natural gas assets.

Production Revenue

Revenue for year end 1994 decreased to \$621,477 from \$941,630 in year end 1993. The loss of sales from Leduc represent almost 90% of the decline in revenue. This, in turn, negatively affected cash flow. The \$152,010 of operating cash flow for 1994 is a sharp decrease from \$520,533 one year ago. A main objective for 1995 is to improve Probe's cash flow by developing the solid asset base acquired during the year.

Since April, Probe's oil and gas sales have been on an upward trend. First quarter figures for the three months ended September 30, 1994 reflect the positive results of last year's drilling activity.

Royalties and Operating Expenses

Decreases in royalties and production expenses are also attributable to the Leduc shut-in. Operating costs per barrel have increased as a result of the commencement of heavy oil operations at Kitscoty. Management projects that per barrel costs will decrease in 1995 when higher production volumes at Kitscoty are offset against fixed operating expenses. In addition, Kitscoty's crown royalty rate of 5% should result in an acceptable overall netback.

General and Administrative Expenses

General and administrative expenses of \$228,967 represent a small decrease from 1993 levels with roughly equivalent amounts capitalized for each year. With Probe's need for additional staff to focus its efforts on development and operations and the high levels of activity expected for the Company, this number is expected to increase in 1995.

Depletion and Depreciation Expense

Depletion and depreciation expense of \$101,238 is down substantially from 1993's figure of \$250,263. The most significant factor affecting this number is the major increase in reserves coupled with their long economic life.

Earnings Before Depletion and Interest

Earnings before depletion and interest of \$562,621 compare favourably with last year's figure of \$600,882. Although the Company previously posted a number of \$927,976 in its third quarter Statement of Operations (March 31, 1993), further advice received by Probe concerning the recognition of gains on the sale of property has resulted in a different treatment in order to conform with generally accepted practice in this area.

LIQUIDITY

A portion of the proceeds received from the sale of property were used to completely repay \$330,000 of outstanding notes payable held by a former major shareholder. With this transaction, management is satisfied that it has met its goal of reducing Probe's net debt.

The Company was successful in securing a \$500,000 revolving credit line with Alberta Treasury Branches which is secured by a \$1.0 million demand debenture.

Drawings on this facility, which totalled \$250,000 at year end, are not treated as a current liability pursuant to written confirmation that the lender does not intend to require any repayment during the upcoming year. The requirement for this operating line is apparent given the significant rise in accounts receivable and accounts payable. Management attributes these increases to the larger amounts of money flowing through the Company as an operator, as well as sharply increased activity levels.

These increased activity levels are evidenced by the additions to oil and gas properties which totalled \$4,676,812 compared to \$494,846 for the comparative period. A small working capital deficiency of \$133,708 at year end was corrected in the first quarter of fiscal 1995 with a private placement of common shares.

Financing Activities Probe employed a wide variety of financing alternatives. Minimizing shareholder dilution while controlling debt levels were two factors foremost in management's decision-making process. Share issues using a combination of flow-through and common stock were privately placed during periods of strong equity markets. Specifically, 2,314,286 flow-through shares were issued along with 792,157 common shares for total proceeds of \$1,803,200 resulting in an average price per share of \$0.58.

When the equity markets cooled in late 1994, Probe undertook the sale of some minor working interests which in aggregate totalled \$2,056,340. The resulting gains from these sales confirm that these were excellent transactions for the Company.

A \$400,000 preferred share issue was undertaken in the third quarter with the Petrovest Group of Montreal. The units which were priced at \$1.00 each are comprised of one share and one-half warrant to purchase a common share for \$0.60. The preferred shares pay a cumulative dividend of 10% and are under certain conditions convertible into common stock at \$0.60 per share. The Company holds an early redemption option which would pay the holder 105% of the face amount of the preferred share should Probe choose to redeem the shares prior to May 4, 1996. This type of financing provides a non-dilutive source of capital without unduly burdening the Company with debt.

Joint Venture Financing has also proven to be an excellent source of non-dilutive capital. Because Probe employs an operating strategy of retaining larger working interests in Company-operated prospects, excellent opportunities exist to farm out to non-operating entities on a promoted basis. Last year Probe accessed \$675,000 of this type of capital and management is currently negotiating similar commitments for 1995.

Subsequent to year end, Probe placed \$750,000 worth of equity with parties associated with the Enerplus Group. Specifically, 1,000,500 flow-through shares were sold at \$0.50 per share and 624,375 common shares were sold for \$0.40 each. Each share purchase was accompanied by a warrant to purchase one common share priced at \$0.70.

OUTLOOK

During the past year, Probe was successful in accumulating a solid reserve base which will form the foundation for future growth. The Company expects to record significantly improved financial and operating results for the coming year. While committed to maintaining a profile as a oil based company, Probe will focus its efforts on achieving a better product mix between crude oil and natural gas.

Probe's gas production is well-contracted for the coming year and the Company will receive over \$2.00 per MCF during 1995. Oil prices have strengthened considerably over the summer of 1994 compared to the depressed prices witnessed earlier in the year. We expect oil prices to remain volatile, but over time we see significant upside for oil production as demand increases and world supplies deplete. The Company is in an advantageous position to maximize the long-term potential of its reserve base.

AUDITORS' REPORT

To the Shareholders of Probe Exploration Inc.

We have audited the balance sheet of **Probe Exploration Inc.** as at June 30, 1994 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Calgary, Canada

October 7, 1994

A handwritten signature in dark ink, reading "Ernst & Young" in a cursive script.

Chartered Accountants

BALANCE SHEET

	Year ended June 30		Three months ended Sept. 30 (unaudited)	
	1994	1993	1994	1993
	\$	\$	\$	\$
ASSETS				
<i>Current</i>				
Cash and short-term deposits	8,777	633,502	439,345	97,474
Accounts receivable	1,143,920	242,579	1,224,265	254,657
<i>Total current assets</i>	1,152,697	876,081	1,663,610	352,131
Oil and gas properties [notes 2 and 3]	3,544,932	1,438,722	3,990,047	2,113,237
	4,697,629	2,314,803	5,653,657	2,465,368
LIABILITIES AND SHAREHOLDERS' EQUITY				
<i>Current</i>				
Accounts payable and accrued liabilities	1,277,628	345,109	1,499,057	268,749
Revolving credit facility [note 3]	—	20,000	—	—
<i>Total current liabilities</i>	1,277,628	365,109	1,499,057	268,769
Revolving credit facility [note 3]	250,000		250,000	—
Notes payable	—	330,000	—	310,000
Future site restoration	51,687	44,538	54,698	44,538
<i>Shareholders' equity [note 4]</i>				
Common shares	2,298,587	4,832,068	3,046,686	5,113,768
Preferred shares	400,000		400,000	—
Retained earnings (deficit)	419,727	(3,256,912)	403,216	(3,271,707)
<i>Total shareholders' equity</i>	3,118,314	1,575,156	3,849,902	1,842,061
	4,697,629	2,314,803	5,653,657	2,465,368

See accompanying notes

On behalf of the Board:


Director


Director

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	Year ended June 30		Three months ended Sept. 30 (unaudited)	
	1994 \$	1993 \$	1994 \$	1993 \$
REVENUE				
Oil and gas sales	621,447	941,630	252,419	106,485
Seismic sales		423,753	—	—
Gain on sale of oil and gas properties	508,596		—	
Interest and other income	23,065	19,350	1,760	19,756
	1,153,108	1,384,733	254,179	126,241
EXPENSES				
Royalties	41,739	118,062	24,883	21,113
Production	319,781	407,756	117,655	23,232
General and administration	228,967	258,033	69,942	66,469
	590,487	783,851	212,480	110,814
Earnings before depletion and interest	562,621	600,882	41,699	15,427
Interest	—	49,590	—	6,772
Interest on long-term debt	32,889	—	2,155	—
Depletion, depreciation and site restoration	101,238	250,263	44,822	23,450
<i>Net income (loss) for the period</i>	428,494	301,029	(5,278)	(14,795)
Retained Earnings (deficit), beginning of period	(3,256,912)	(3,557,941)	419,727	(3,256,912)
Reduction of share capital [note 4]	3,256,912	—	—	—
Preferred share dividends	(8,767)	—	(11,233)	—
<i>Retained earnings (deficit), end of period</i>	419,727	(3,256,912)	403,216	(3,271,707)
<i>Net income per common share</i>	0.02	0.02	—	—

See accompanying notes

STATEMENT OF CASH FLOWS

	Year ended June 30		Three months ended Sept. 30 (unaudited)	
	1994	1993	1994	1993
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income (loss) for the period	428,494	301,029	(5,278)	(14,795)
Add items not requiring cash				
Depletion, depreciation and site restoration	101,238	250,263	44,822	23,450
Gain on sale of oil and gas properties	(508,596)	—	—	—
Funds from operations	21,136	551,292	39,544	8,655
Change in non-cash working capital items relating to operating activities	130,874	(30,759)	72,818	18,691
<i>Cash provided by operating activities</i>	<i>152,010</i>	<i>520,533</i>	<i>112,362</i>	<i>27,346</i>
INVESTING ACTIVITIES				
Additions to oil and gas properties	(4,676,812)	(494,847)	(486,926)	(697,965)
Proceeds from sale of oil and gas properties	2,056,340	90,794	—	—
Change in non-cash working capital items related to investing activities	(111,087)	80,389	74,998	(127,109)
<i>Cash used in investing activities</i>	<i>(2,731,559)</i>	<i>(323,664)</i>	<i>(411,928)</i>	<i>(825,074)</i>
FINANCING ACTIVITIES				
Issue of common shares	1,803,200	822,015	750,000	281,700
Issue of preferred shares	400,000	—	—	—
Share issue costs	(151,000)	(17,566)	(1,900)	—
Preferred share dividends	(8,767)	—	(11,233)	—
Increase in revolving credit facility	230,000	20,000	—	—
Repayment of long-term debt	—	(192,422)	—	(20,000)
Repayment of notes payable	(330,000)	(170,000)	—	—
Change in non-cash working capital items related to financing activities	11,391	(82,163)	(6,733)	—
<i>Cash provided by financing activities</i>	<i>1,954,824</i>	<i>379,864</i>	<i>730,134</i>	<i>261,700</i>
<i>Increase (decrease) in cash during the period</i>	<i>(624,725)</i>	<i>576,733</i>	<i>430,568</i>	<i>(536,028)</i>
Cash and short-term deposits, beginning of period	633,502	56,769	8,777	633,502
<i>Cash and short-term deposits, end of period</i>	<i>8,777</i>	<i>633,502</i>	<i>439,345</i>	<i>97,474</i>

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Oil and gas properties

The Company follows the full cost method of accounting for oil and gas operations whereby all costs relating to the exploration for and development of oil and natural gas reserves in Canada are capitalized in one cost centre. A substantial portion of the Company's activities are conducted jointly with other non-affiliated companies. The accounts reflect only the Company's proportionate interest in such activities.

The capitalized cost of oil and gas properties is limited to an estimated recoverable amount which is the aggregate of future net revenues from production of proved reserves after deducting estimated future interest, general and administrative and site restoration expenses and income taxes. Future net revenues are calculated using year end prices for oil and gas.

Gains or losses on the disposition of oil and gas properties are not recognized unless crediting the proceeds against accumulated costs would result in a change in the depletion rate by 20% or more.

Depletion is provided using the unit of production method. For purposes of the depletion calculation, gross proved oil and gas reserves as determined by independent engineers are converted to a common unit of measure on the basis of their approximate relative energy content.

Well equipment costs are depreciated on the unit of production basis while other equipment is depreciated at 20% of the declining balance.

Flow-through shares

Oil and gas exploration and development activities have been financed in part through proceeds from flow-through share issues. The flow-through share agreements provide for the related income tax deductions to be renounced to the shareholders. At the time the renunciations are made, oil and gas properties and share capital are reduced by the value of the income tax deductions renounced.

Future site restoration

Estimated future site restoration costs are provided on a unit of production basis. The provision is based on current costs of complying with existing legislation and industry practice for site restoration and abandonment.

Net income per common share

Net income per common share is calculated using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are not shown as there are no dilutive factors.

2. OIL AND GAS PROPERTIES

	Cost \$	June 30, 1994 Accumulated Depletion and Depreciation \$	Net \$
Petroleum and natural gas rights	6,293,304	3,347,740	2,945,564
Well equipment and other	818,882	219,514	599,368
	7,112,186	3,567,254	3,544,932

	Cost \$	June 30, 1993 Accumulated Depletion and Depreciation \$	Net \$
Petroleum and natural gas rights	4,335,798	3,276,320	1,059,478
Well equipment and other	576,089	196,845	379,244
	4,911,887	3,473,165	1,438,722

During 1994, the Company capitalized \$101,477 (1993 - \$90,718) of general and administration expenditures related to exploration and development. The carrying value of the oil and gas properties has been reduced by \$928,769 representing the tax benefits of exploration and development expenditures renounced to shareholders in connection with flow-through share agreements.

3. REVOLVING CREDIT FACILITY

During 1994, the Company increased its revolving production loan facility to a maximum of \$500,000. The facility is repayable on demand and bears interest at the prime rate plus 1 1/2% (June 30, 1994 - 8 3/4%). Collateral for the facility consists of a \$1,000,000 registered demand debenture providing a fixed and floating charge over all assets and undertakings and a general security agreement. The lenders have advised the Company that they do not intend to require any repayments during the next fiscal year. Accordingly, the drawings have been classified as long-term. The facility is subject to annual review.

4. SHARE CAPITAL

Authorized

The Company's authorized capital consists of an unlimited number of common shares and Class A voting and Class B non-voting preferred shares without nominal or par value.

Issued

	Year ended June 30, 1994		Year ended June 30, 1993	
	Number of Shares Issued	Amount \$	Number of Shares Issued	Amount \$
<i>Common shares</i>				
Balance, beginning of year	16,129,959	4,832,068	12,824,559	4,027,619
Reduction to eliminate deficit	—	(3,256,912)	—	—
Adjusted balance, beginning of year	16,129,959	1,575,156	12,824,559	4,027,619
Issued for purchase of oil and gas properties	792,157	400,000	—	—
Issued upon exercise of stock options	660,000	103,200	75,000	11,250
Flow-through shares issued (net of issue costs)	2,314,286	1,149,000	3,230,400	793,199
Flow-through renunciations	—	(928,769)	—	—
Balance, end of year	19,896,402	2,298,587	16,129,959	4,832,068

Pursuant to a resolution of the Company's shareholders on November 23, 1993, common share capital was reduced by \$3,256,912 to eliminate the deficit as of July 1, 1993.

NOTES TO FINANCIAL STATEMENTS

	Year ended June 30, 1994		Year ended June 30, 1993	
	Number of Shares Issued	Amount \$	Number of Shares Issued	Amount \$
<i>Preferred shares</i>				
<i>Class A, net of share issue costs</i>	400,000	—	—	—

The Class A preferred shares entitle the holder to cumulative preferential dividends at a rate of 10% per annum of the redemption amount (\$1.05) and are redeemable, retractable and convertible into 1.66 common shares at the option of the holder, at any time.

Flow-through shares

In March and April 1993, the Company entered into flow-through share agreements under which 3,230,400 flow-through common shares were issued for proceeds of \$810,765 before issue costs. In November 1993, the Company issued 2,314,286 additional flow-through common shares for proceeds of \$1,300,000 before issue costs. The funds were used for development and exploration expenditures. During the year the related tax deductions were renounced to the Company's shareholders and \$928,769, representing the tax effect of the amounts renounced has been recognized as a reduction of share capital and oil and gas properties.

Warrants

The Company attached warrants to certain common, preferred and flow-through shares issued during the year. As at June 30, 1994, 992,157 warrants for common shares were outstanding with exercise prices from \$0.60 to \$0.75, and expiry dates from August, 1994 to May, 1996. 392,157 of these warrants expired on August 31, 1994.

Options

The Company has a stock option plan which provides for options to be issued to certain directors, officers and key employees. At June 30, 1994, options for 505,000 common shares were outstanding. These options expire on various dates from 1994 to 1998 and are exercisable at prices from \$0.15 to \$0.36 per share.

5. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 44.34% (1993 - 44%) for the following reasons:

	1994 \$	1993 \$
Income taxes calculated at the statutory rate	189,994	150,709
Increase (decrease) in income taxes resulting from:		
Non-deductible royalties, mineral taxes and expenses	39,703	49,334
Alberta Royalty Tax Credit	(25,360)	(27,398)
Federal resource allowance	—	(39,633)
Recognition of prior years' losses	(108,128)	(134,719)
Other	3,599	1,707
Non-taxable portion of capital gain	(107,709)	—
Depletion and depreciation without equivalent basis		
for income tax	7,901	—
<i>Provision for income taxes</i>	—	—

At June 30, 1994, the Company had unrecorded investment tax credits of \$7,017 which can be used to reduce any future income taxes payable. If not so applied, these credits expire from 1995 to 1997. The Company also has \$393,782 of non-capital losses available to reduce future taxable income, the benefits of which have not been recorded in the accounts. To the extent these balances are not used, they expire as follows:

Year	\$
1996	234,701
1997	70,072
1999	89,009
	393,782

At June 30, 1994, the Company also had the following cumulative resource expenditures and undepreciated capital costs available for income tax purposes:

	1994 \$	1993 \$	Annual Rate of Claim %
Canadian exploration expense	67,000	—	100
Canadian development expense	2,443,000	698,000	30
Canadian oil and gas property expense	669,000	1,929,000	10
Foreign exploration and development expense	51,000	51,000	10
Undepreciated capital cost	741,000	503,000	20-30

The deduction of \$1,476 of Canadian exploration expense, \$120,488 of Canadian development expense and \$71,686 of Canadian oil and gas property expense related to the acquisition of certain properties is limited to the income from those properties.

6. SUBSEQUENT EVENTS

Subsequent to June 30, 1994, pursuant to private placement agreements, the Company issued 1,000,500 flow-through common shares, 624,375 common shares, and warrants to purchase 1,624,875 common shares for a total consideration of \$750,000. The warrants will be exercisable at \$0.70 per common share and expire in July 1995.

FIVE YEAR SUMMARY

	1994	1993	1992	1991	1990 ⁽¹⁾
FINANCIAL					
Oil & Gas Revenue	\$ 621,447	\$ 941,630	\$ 836,489	\$ 945,135	\$ 784,239
Other Revenue	531,661	443,103	92,022	77,064	15,973
Total Revenue	1,153,108	1,384,733	928,511	1,022,199	800,212
Production Expenses (incl. royalties)	361,520	525,818	612,136	567,385	523,674
General and Administration Expenses	228,967	258,033	279,123	279,569	414,171
Earnings (Loss) before Depletion, Depreciation and Interest	562,621	600,882	37,252	175,245	(137,633)
Interest	32,889	49,590	58,526	69,602	73,293
Depletion and Depreciation	101,238	250,263	1,249,898	121,824	89,224
Other	—	—	—	(40,000)	—
Net Income (Loss)	\$ 428,494	\$ 301,029	\$ (1,271,172)	\$ 23,819	\$ (300,150)
OPERATING					
Production (BOEPD)	93	183	142	135	88
Average Price per BOE	\$ 14.12	\$ 13.23	\$ 15.45	\$ 20.87	\$ 18.50
Proven Reserves (MBOE)	1,671	449	593	733	383
Probable Reserves (MBOE) (risked at 50%)	718	119	13	14	40
NPV at 15% (000's)	\$ 15,764	\$ 2,556	\$ 1,871	\$ 1,997	\$ 1,655
COMMON SHARE DATA					
Common Shares Outstanding	19,896,402	16,129,959	12,824,327	10,745,127	7,477,503
Net Income (Loss) per Common Share	\$.02	\$.02	\$ (0.11)	\$.002	\$ (0.04)
Cash Flow from Operating Activities per Common Share	\$.01	\$.03	\$ —	\$.01	\$ (0.03)
MARKET PRICE PER COMMON SHARE					
High	\$ 0.85	\$ 0.80	\$ 0.18	\$ 0.18	\$ 0.21
Low	\$ 0.28	\$ 0.10	\$ 0.035	\$ 0.05	\$ 0.05
Close	\$ 0.38	\$ 0.80	\$ 0.10	\$ 0.10	\$ 0.18
Volume	5,087,054	4,356,534	185,992	392,800	308,000

⁽¹⁾ Fifteen months ending June 30, 1990.

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Trading Symbol - PRX

Reporting issuer in Quebec

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Abbreviations

BBLS	Barrels
BOPD	Barrels of oil per day
MBBLS	Thousand barrels
BOE	Barrel(s) of oil equivalent *
BOEPD	Barrels of oil equivalent per day
MBOE	Thousand barrels of oil equivalent
MMBBLs	Million barrels
MMBOE	Million barrels of oil equivalent
MCF	Thousand cubic feet
MMCF	Million cubic feet

** To conform with depletion calculations natural gas is converted
at six thousand cubic feet per barrel*

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